File

CANADIAN INDUSTRIAL GAS & OIL LTD.

ANNUAL REPORT

1974

Contents

Head Office

640 Eighth Avenue S.W.,
Calgary, Alberta, Canada T2P 1G9

London Office

1st floor Wellington House, 6/9 Upper St.
Martin's Lane, London, England WC2H 9DL

Auditors

THORNE RIDDELL & CO. Calgary, Alberta

Registrars and Transfer Agents

NATIONAL TRUST COMPANY, LIMITED
Calgary, Montreal, Toronto, Vancouver, Winnipeg
THE BANK OF NEW YORK New York

Exchange Listing

TORONTO STOCK EXCHANGE Toronto, Ontario

CANADIAN INDUSTRIAL GAS & OIL LTD.

Directors

*Edward G. Battle — Toronto, Ontario
Director, President & Chief Operating Officer,
Northern and Central Gas Corporation Limited

*Edmund C. Bovey — Toronto, Ontario
Chairman of the Board and Chief Executive Officer,
Northern and Central Gas Corporation Limited

C. Spencer Clark — Seattle, Washington
Vice Chairman of the Board,
Northern and Central Gas Corporation Limited
Chairman of the Board,
Cascade Natural Gas Corporation

Robert B. Craddock — Prescott, Arizona
Director,
Northern and Central Gas Corporation Limited

†J. Ian Crookston — Toronto, Ontario
Chairman of the Board,
Nesbitt, Thomson and Company, Limited

*Edward A. Galvin — Calgary, Alberta
Chairman of the Board & President,
Canadian Industrial Gas & Oil Ltd.

†*Richey B. Love, Q.C. — Calgary, Alberta
Senior Partner,
Macleod Dixon, Barristers & Solicitors

Henry S. Romaine — Mt. Kisco, New York
Senior Vice-President,
The Mutual Life Insurance Company of New York

Vernon Taylor — Toronto, Ontario
Retired oil company executive

†William I. M. Turner, Jr. — Montreal, Quebec
Director, President & Chief Executive Officer,
Consolidated-Bathurst Limited

†Adam H. Zimmerman — Toronto, Ontario
Executive Vice-President,
Noranda Mines Limited

*Member of the Executive Committee
†Member of the Audit Committee

Officers

Edward A. Galvin	Chairman of the Board & President
Edmund C. Bovey	Chairman of the Executive Committee
Donald D. Barkwell	Executive Vice-President
Edward G. Battle	Senior Vice-President
Richard S. Buckland	Vice-President, Exploration
George T. Hefter	Vice-President, LP Gas
William C. Hennenfent	Vice-President, Corporate Planning
Donald R. Jepson	Vice-President, Production
Wilfrid A. Loucks	Vice-President, Finance & Services
D. Stewart McIntosh	Vice-President, Pipelines
Hugh Mogensen	Vice-President, International
Laurence A. Sills	Secretary
A. Kenneth Davies	Treasurer
Russell G. Rennie	Assistant Secretary
Curt W. Brown	Comptroller

Ten-Year Comparative Summary

December 31

		1974	1973	1972	1971
Revenue	$000	80,876	58,964	47,432	42,086
Cash flow	$000	31,317	25,554	19,476	17,479
***Net earnings**	$000	10,732	9,915	10,720	9,889
Cash flow	per common share	$1.45	$1.18	90¢	81¢
***Net earnings**	per common share	50¢	46¢	50¢	47¢
Expenditures On					
Exploration & Property Acquisitions	$000	33,100	25,300	14,300	15,700
Plant and Equipment	$000	5,700	4,300	6,800	8,500
Shares Issued and Outstanding					
Common (3 for 1 split in 1969)		21,644,128	21,644,128	21,264,674	21,112,127
Preferred		—	—	154,963	167,616
Dividends Paid per share					
Common		15¢	10¢	—	—
Preferred		—	55¢	55¢	55¢
†Production					
Crude Oil, Synthetic Crude Oil, and Gas Liquids	Barrels/day	17,143	16,671	11,622	10,604
Natural Gas	MMcf/day	134.3	127.9	98.8	93.4
Sulphur	Long Tons	19,305	17,834	14,680	13,690
Gas Gathering & Transmission (Sales)	MMcf/day	142.8	146.4	139.4	125.8
Oil Gathering & Transmission (Transported)	Barrels/day	98,500	110,800	113,400	117,600
Liquefied Petroleum Gas (Sales)	Imp. Gallons 000	94,800	95,900	88,400	76,500
†Reserves					
Crude Oil, Synthetic Crude Oil and Gas Liquids	Barrels 000	81,298	79,159	70,216	69,733
Natural Gas	MMcf	746,910	773,528	582,200	603,700
Sulphur	Long Tons	305,700	252,000	227,000	243,000
Petroleum, Natural Gas and Mineral Rights	Gross Acres	30,037,549	23,381,169	20,065,818	23,408,839
	Net Acres	12,345,165	11,983,568	10,965,874	14,223,230
Miles of Pipeline Systems		1,358	1,358	1,350	1,317
Propane Distribution Plants		52	52	54	54
Number of Employees		608	602	567	563

*1973 and 1974 reflect adoption of deferred tax method of accounting.

†1973 and 1974 indicate gross production and reserves before deduction of royalties. Prior years show net production and reserves after royalties.

1970	1969	1968	1967	1966	1965
33,901	34,174	29,616	26,266	23,727	21,532
15,325	14,513	14,379	11,961	10,267	10,084
8,912	8,188	8,196	6,359	6,416	6,188
71¢	71¢	71¢	60¢	52¢	51¢
42¢	41¢	41¢	32¢	32¢	31¢
10,900	11,800	2,900	10,200	4,000	4,300
2,900	5,000	2,700	4,100	3,800	5,400
19,853,829	19,662,740	5,495,291	5,360,843	5,318,160	4,395,806
228,074	293,532	353,042	399,477	399,480	458,765
—	—	—	—	12½¢	25¢
55¢	55¢	55¢	55¢	55¢	27½¢
9,600	9,095	8,834	8,016	7,356	6,958
95.2	88.3	81.8	73.6	71.0	63.6
13,400	10,810	10,390	6,780	4,620	4,880
120.8	120.3	108.6	102.0	94.9	83.3
122,300	123,800	122,100	118,700	112,800	102,200
67,400	59,800	53,500	48,300	43,600	30,700
63,775	49,746	46,312	43,826	41,914	33,350
619,600	597,000	595,800	590,000	524,800	554,200
255,000	246,900	257,700	—	—	—
16,335,847	18,152,342	10,994,464	8,411,515	8,827,548	7,126,752
11,100,522	12,727,674	5,846,223	2,802,253	3,074,010	1,702,441
1,248	1,109	1,091	1,010	949	895
44	37	36	37	37	33
445	356	340	360	367	322

DIRECTORS' REPORT

TO THE SHAREHOLDERS:

The year 1974 has been a most eventful one for the Company as well as the oil and gas industry as a whole. An unusual number of major changes have taken place that significantly affect conditions and the environment in which the industry operates. Unprecedented price rises for both oil and gas have been brought into effect which should have had a positive impact on the industry's capability to provide for new sources of supply. Unfortunately counteractive influences were many and varied. Inflation continues to erode the value of income received and aggravates already excessive costs. Major changes in government regulation and tax legislation, together with expanded royalty requirements by provincial governments have led to confrontation between the federal and provincial bodies, with the industry caught in the middle. In the final analysis, government take of the petroleum dollar has increased out of reasonable proportion by comparison to industry.

The Company's profits increased in 1974, as did those of most other oil and gas producing companies, but reinvestment in oil and gas exploration has been made less attractive in consideration of the risks involved and the rewards to be obtained. Consequently the Company has reduced its exploration budget for 1975. It is hoped that some of the adverse conditions will be modified so that the Company may increase its participation in exploration activities in future years.

One of the significant events in 1974 was the proposed merger of your Company and its parent, Northern and Central Gas Corporation Limited, into a new entity, Norcen Energy Resources Limited. The Information Circular sent to shareholders in January outlines the proposal in great detail and precludes the necessity of further elaboration. Additional copies of this Information Circular may be obtained from the Secretary. Meetings of the

respective shareholder bodies were held in February and of those voting, more than 99% were in favour of the merger and the only remaining barrier to finalization of the arrangement is the receipt of government and judicial approvals.

CIGOL acquired 100% of the shares of Great Plains Development Company of Canada, Ltd. from Burmah Oil Canada Limited for approximately $96,000,000. This most important acquisition was effective January 1, 1975 and should prove to be very beneficial to the amalgamated company, Norcen Energy Resources Limited. The purchase was financed primarily through the chartered banks on a special ten year loan arrangement. Great Plains is a natural resource company engaged primarily in the exploration for and production of oil and natural gas, but also includes in its operations mineral exploration. Reserves of Great Plains are estimated as of December 31, 1974 at 59 million barrels of oil and gas liquids and 487 billion cubic feet of natural gas. Gross production rates for 1974 averaged 10,831 barrels of oil and gas liquids and 56.9 million cubic feet of natural gas per day.

The Company's earnings before extraordinary item for the year were $13,066,000, 60¢ per share, as compared to $9,915,000, 46¢ per share (restated to account for full deferred income tax) for 1973. Net earnings for 1974 were $10,732,000, 50¢ per share.

On behalf of the Board,

Chairman and President.

Calgary, Alberta.
May 30, 1975.

DRILLING

During the year the Company participated in the drilling of 126 gross (36.983 net) wells, resulting in 17 (5.35 net) oil wells and 33 (9.66 net) gas wells, as shown in the following summary.

	Oil		Gas		Abandoned		1974 Total		1973 Total	
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net
Alberta										
Exploratory	5	2.14	14	6.22	32	12.95	51	21.31	61	23.63
Development	5	1.21	4	2.00	5	1.41	14	4.62	37	8.39
British Columbia										
Exploratory	—	—	1	.10	3	2.00	4	2.10	8	2.99
Development	—	—	1	.05	2	.29	3	.34	4	.69
Saskatchewan										
Exploratory	—	—	—	—	—	—	—	—	4	2.50
Arctic										
Exploratory	—	—	1	.01	2	.05	3	.06	—	—
Northwest Territories										
Exploratory	—	—	—	—	1	.13	1	.13	—	—
Tuktoyaktuk										
Exploratory	—	—	—	—	3	.60	3	.60	2	.40
Eastcoast										
Exploratory	—	—	—	—	5	.65	5	.65	—	—
North Sea										
Exploratory	1	.15	—	—	—	—	1	.15	1	.20
Adriatic										
Exploratory	—	—	—	—	—	—	—	—	1	1.00
Tunisia										
Exploratory	—	—	—	—	—	—	—	—	1	.38
Turkey										
Exploratory	1	.20	—	—	—	—	1	.20	—	—
U.S.A.										
Exploratory	5	1.65	4	.69	22	3.79	31	6.13	—	—
Development	—	—	8	.59	2	.10	9	.69	—	—
	17	5.35	33	9.66	77	21.97	126	36.98	119	40.18

EXPLORATION

WESTERN CANADA

Seal, Alberta

In the Seal-Cadotte area of north central Alberta, the Company and its subsidiaries own varying interests in approximately 50,000 acres. During the past year an oil discovery and a gas discovery were made on these lands. A well offset to the oil discovery was completed as an oil well prior to the spring break-up of 1974, at which time further drilling was suspended. In addition, early in 1975 three follow-up wells were drilled in the vicinity of the discoveries which all failed to encounter commercial production.

Southern Alberta

Varying interests are held in approximately 530,000 acres in the general Countess-Blackfoot-Taber area of southern Alberta where, during the past year, the Company participated in the drilling of 35 wells of which 27 were exploratory and 8 development. This drilling resulted in 5 oil wells and 6 gas wells. Oil discoveries were made in the Majorville and Chin Coulee areas where development drilling is now proceeding.

ARCTIC ISLANDS

During the year Panarctic Oils Ltd. drilled 4 wells on the Sabine Peninsula of Melville Island, in which the Company through a subsidiary has varying interests. This drilling resulted in one gas well and three dry holes.

TUKTOYAKTUK PENINSULA

During the past two years the Company has earned a 20% interest in a total of 133,080 acres by the drilling of six wells. Although these wells were abandoned, a gas show was obtained in one of them and the Company elected to drill, to earn a 25% interest, on an adjacent 22,000 acre block. Early in 1975 certain credits obtained from the drilling have been assigned to another company in return for a 25% interest in a further 501,862 acre permit.

NORTH SEA

During the year the Company participated in the drilling of a well in block 210/19 in which it has a 15% interest. Although the formation which has been proven oil-bearing by others in the area, was found to be present with above-average thickness, the well was dry. A recent seismic review indicates that a second well should be drilled in a more attractive structural position and it is anticipated that this well will be drilled late in 1975.

OMAN

Seismic surveys were completed during the year and a drilling location selected on an attractive structure in the northern part of a 3,854,599-acre offshore Oman concession in which CIGOL has a 29.6875% interest.

TUNISIA

Five seismic surveys have been carried out on the three Tunisian permits. One permit, covering 1,715,862 acres in the Gulf of Gabes, has been farmed out and when the earned well has been completed the Company's interest will be reduced from 52% to 26%.

VIETNAM

With three other companies, CIGOL (25%) has acquired exploration rights to a 1,100,000-acre block in the South China Sea, offshore South Viet Nam. Geophysical surveys indicated the presence of interesting prospects and late in the year a major oil company announced a discovery on a nearby block of commercial quantities of hydrocarbons in one of the first wells in this basin. However, the future of this concession is in doubt in view of the current political situation.

U.S.A.

In March 1974 the Company participated in a Louisiana offshore lease sale and was successful in acquiring interests in four blocks. Wells have been drilled on three of the four blocks resulting in two gas wells and one dry hole. A production platform is presently under construction so that gas may be produced from one of the discovery wells.

The Company also participated in a number of small plays onshore and has obtained some oil production in the States of Texas and Louisiana.

LAND

The Company's holdings of petroleum, natural gas and mineral rights as at December 31, 1974, are shown on page 11.

PRODUCTION AND RESERVES

CRUDE OIL, SYNTHETIC CRUDE OIL AND GAS LIQUIDS

Average daily production rates for the year, before royalty deductions, were 17,143 barrels of oil per day, compared to 16,671 barrels of oil per day for the previous year, an increase of 2.8%. This production is shown by fields in the under-noted table.

Barrels Per Day (Gross)

	1974	1973
ALBERTA		
Countess-Lathom	3,492	3,638
Joarcam	1,216	1,267
Pembina	948	1,073
Simonette	851	647
Golden	756	360
Swan Hills	724	669
Redwater	440	485
Leduc	336	383
West Drumheller	304	330
Swalwell	154	245
Joffre	146	172
Lloydminster	123	136
Other Fields	1,048	1,149
Synthetic Crude	1,854	1,214
Royalty Interests	74	90
Condensate	614	540
Propane-Butane	678	599
	13,758	12,997

	1974	1973
SASKATCHEWAN		
Weyburn	477	561
Hazlet	268	369
West Kingsford	208	233
Queensdale	119	120
Other Fields	293	340
Royalty Interests	677	744
	2,042	2,367
BRITISH COLUMBIA		
Peejay	1,007	921
Other Fields	297	332
Royalty Interests	23	35
	1,327	1,288
OTHER AREAS	16	19
	17,143	16,671

By agreement between the federal and provincial governments, the wellhead price of crude oil in Western Canada was increased from an average of $3.80 per barrel to an average of $6.50 per barrel effective April 1, 1974. As a result, the weighted average price received by the Company for the year was approximately 77% higher than for 1973.

Reserves of crude and synthetic crude oil and gas liquids before deduction of royalties at December 31, 1974 were 81,298,000 barrels, compared to 79,159,000 barrels at the previous year end.

NATURAL GAS

Natural gas production before the deduction for royalties averaged 134.3 million cubic feet per day, compared to 127.9 million cubic feet per day in the previous year, an increase of 5.07%. Details of this production are shown in the following table.

Million Cubic Feet Per Day (Gross)

	1974	1973
ALBERTA		
Westlock	25.7	23.8
Fort Saskatchewan	12.5	12.5
Alexander	8.0	8.3
Bruce	7.7	—
Bindloss	7.6	7.6
Ghost Pine	6.9	7.9
Nevis	6.4	7.4
Craigend	4.0	4.1
Crossfield	3.5	3.9
Kessler	2.9	1.9
Big Bend	2.9	—
Pouce Coupe	2.6	2.1
Other Fields	29.3	33.4
Royalty Interests	3.9	3.5
	123.9	116.4

	1974	1973
BRITISH COLUMBIA		
Jedney-Bubbles-E. Laprise	9.0	9.5
Other Fields	0.8	0.9
	9.8	10.4
OTHER AREAS	0.6	1.1
	134.3	127.9

The average price received by the Company for natural gas increased by 36%, as a result of price redetermination.

Reserves of natural gas before deduction of royalties at December 31, 1974 were 746,910 million cubic feet as compared to 773,528 million cubic feet for the previous year.

SULPHUR

During the year, the Company produced 19,305 long tons of sulphur, compared to 17,834 during the preceding year. At the year end, reserves were 305,700 long tons, compared to 252,000 long tons for the previous year.

HEAVY OIL

In mid-1974 CIGOL formed a Heavy Oil Department to pursue the experimentation and development of Alberta Oil Sands projects.

At Cold Lake, in conjunction with Fuyo-Marubeni Oil and Gas of Alberta Ltd., twenty-one wells were drilled to evaluate the heavy oil potential. An application was submitted to the Alberta Energy Resources Conservation Board for approval to conduct an experimental pilot operation to test production potential.

Subsequent to year end, a firm proposal was submitted to Fuyo-Marubeni to proceed with an experimental operation, the costs of which are expected to exceed $15 million. Their decision is expected later in the year.

GATHERING AND TRANSMISSION

OIL

The Company's subsidiary, Trans-Prairie Pipelines, Ltd., transported approximately 33 million barrels of crude oil and products in 1974 through its gathering and transmission pipelines in the four western Provinces, an average of 90,200 barrels per day, compared to approximately 37 million barrels and an average of 101,600 barrels per day in 1973. Proven and probable recoverable reserves in the fields served by the systems are 403 million and 325 million barrels respectively, a decline from 439 million and 358 million barrels at the end of the preceding year. Adverse marketing conditions of Saskatchewan crude oil contributed to a more than normal decline.

During the year 8,300 barrels of oil per day were delivered through the 74-mile crude oil gathering and transmission system in Alberta, compared to 9,200 barrels per day in 1973. The reserves in fields served by this system have been reduced from 20 million barrels to 17 million barrels at the end of 1974.

GAS

Average sales from the Company's industrial gas system were 122.6 million cubic feet per day in 1974, compared to 125.2 million cubic feet per day in 1973.

The natural gas utility system owned and operated by Columbia Natural Gas Limited (the wholly-owned subsidiary of Trans-Prairie Pipelines, Ltd.) and serving over 8,000 customers in the East Kootenay area of British Columbia, delivered an average of 19.3 million cubic feet per day in 1974, compared to 20.4 million cubic feet per day in 1973.

LP GAS

Sales of propane and butane during the year by the LP Gas division were 94.8 million gallons, compared to 95.9 million gallons in 1973. Gross sales were $30,838,000 as compared to $20,756,000 for the previous year.

FINANCIAL

The Company's total revenue rose markedly from $58,964,000 in 1973 to $80,876,000 for the year ended December 31, 1974. Contributing to the change was higher prices for crude oil and natural gas, as well as utility gas and propane sales.

Net earnings for the year before extraordinary item were $13,066,000, 60¢ per share, and net earnings were $10,732,000, 50¢ per share, as compared to $9,915,000 for 1973, the increase in gross revenue having been largely eroded by higher costs of utility gas and propane and increased operating and administration expenses, as well as by escalation in income taxes resulting from the November 18 federal budget measures.

Cash flow from operations was $31,317,000, $1.45 per share, up $5,763,000, 27¢ per share, from the previous year.

Capital expenditures reached a record high, $38,460,000 for the year, as compared to $29,630,000 in 1973, the increase being basically in exploration, both domestic and international.

A dividend of 15¢ per share totalling $3,246,619 was paid on October 18 to shareholders of record as of October 4, 1974.

Petroleum, Natural Gas and Mineral Rights (Acres)

DECEMBER 31, 1974

The Company's holdings increased from 23,381,169 gross (11,828,921 net) acres at the end of 1973, to 30,037,549 gross (12,345,165 net) acres at December 31, 1974.

	Leases		Reservations Permits & Licences		Total		Net Carried Interests		Mineral Interests		Gross Royalty Interests
	Gross	Net	Gross	Net	Gross	Net	Gross	Net	Gross	Net	
CANADA											
Arctic	116,085	6,625	4,614,847	1,357,542	4,730,932	1,364,167	—	—	—	—	—
Amundsen Gulf	—	—	1,001,435	1,001,435	1,001,435	1,001,435	—	—	—	—	—
Banks Island	—	—	1,709,993	1,320,080	1,709,993	1,320,080	—	—	—	—	—
Beaufort Sea	—	—	913,589	455,994	913,589	455,994	—	—	—	—	—
Tuktoyaktuk	—	—	155,056	32,110	155,056	32,110	—	—	—	—	—
Northwest Territories	52,976	6,842	165,406	6,617	218,382	13,459	—	—	—	—	101,522
Yukon	—	—	128,970	53,545	128,970	53,545	—	—	4,339	1,084	—
East Coast											
Flemish Pass	—	—	1,029,200	1,029,200	1,029,200	1,029,200	—	—	—	—	—
Scotian Shelf	—	—	4,857,516	607,190	4,857,516	607,190	—	—	—	—	—
Labrador Offshore	—	—	1,030,978	773,234	1,030,978	773,234	—	—	—	—	—
Alberta	2,773,277	1,186,910	802,073	579,079	3,575,350	1,765,989	282,078	10,182	16,960	13,609	327,267
British Columbia	399,773	109,888	119,127	72,776	518,900	182,664	83,277	9,284	—	—	178,206
Manitoba	76,303	23,062	—	—	76,303	23,062	122	29	—	—	960
Ontario	4,252	4,252	1,890	1,890	6,142	6,142	—	—	—	—	—
Saskatchewan	222,295	124,501	144,480	120,080	366,775	244,581	—	—	—	—	402,249
FOREIGN											
United States	17,454	1,001	—	—	17,454	1,001	—	—	—	—	—
North Sea	—	—	259,828	62,210	259,828	62,210	—	—	—	—	—
Adriatic Sea	—	—	57,996	57,996	57,996	57,996	—	—	—	—	—
Sicily Offshore	—	—	73,970	73,970	73,970	73,970	—	—	—	—	—
Oman	—	—	3,854,599	1,204,562	3,854,599	1,204,562	—	—	—	—	—
Tunisia	—	—	3,776,718	1,675,373	3,776,718	1,675,373	—	—	—	—	—
Turkey	—	—	123,550	24,710	123,550	24,710	—	—	—	—	—
Viet Nam	—	—	1,127,591	281,898	1,127,591	281,898	—	—	—	—	—
Malta	—	—	426,322	90,593	426,322	90,593	—	—	—	—	—
Wales	—	—	—	—	—	—	—	—	1,040	1,040	—
TOTAL	3,662,415	1,463,081	26,375,134	10,882,084	30,037,549	12,345,165	365,477	19,495	22,339	15,733	1,010,204

Applications for Leases in Alaska covering 942,339 gross (294,480 net) acres are awaiting acceptance, and are not included in the above table.

The above figures do not include Elf acreage, as follows, in which the Company has a 10% interest:

	Gross	Net
Arctic Islands	25,400,228	14,150,627
Beaufort Sea	995,712	533,255
Mackenzie Delta	4,836,341	3,355,128
Offshore East Coast	2,408,729	2,169,888
Hudson Bay	19,175,682	1,518,802
Alberta	679,184	182,947
British Columbia	1,105,299	296,695
	54,601,175	22,207,342

CONSOLIDATED STATEMENT OF EARNINGS

for the year ended December 31, 1974

	1974	1973 (Note 1)
SALES, SERVICE AND OTHER OPERATING REVENUE	$80,876,000	$58,964,000
COSTS AND EXPENSES		
Gas and other merchandise purchased	25,266,000	17,246,000
Selling, operating and administrative expenses	16,630,000	13,917,000
Interest	4,360,000	2,370,000
Depletion	6,139,000	5,615,000
Depreciation	3,902,000	3,748,000
Minority interest	169,000	68,000
	56,466,000	42,964,000
EARNINGS BEFORE INCOME TAXES AND EXTRAORDINARY ITEM	24,410,000	16,000,000
INCOME TAXES (Note 1)		
Current	3,161,000	43,000
Deferred	8,183,000	6,042,000
	11,344,000	6,085,000
EARNINGS BEFORE EXTRAORDINARY ITEM	13,066,000	9,915,000
EXTRAORDINARY ITEM		
Write-down of investment, net of deferred income taxes of $1,166,000 (Note 2)	2,334,000	—
NET EARNINGS	$10,732,000	$ 9,915,000
PER COMMON SHARE		
Earnings before extraordinary item	$.60	$.46
Net earnings	$.50	$.46

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

for the year ended December 31, 1974

	1974	1973 (Note 1)
SOURCE OF WORKING CAPITAL		
Operations		
Earnings before extraordinary item	$13,066,000	$ 9,915,000
Charges not requiring working capital	18,251,000	15,639,000
Working capital generated from operations	31,317,000	25,554,000
Sale of producing properties and equipment thereon	—	4,515,000
Sale of other fixed assets	750,000	1,104,000
Bank loan additions - net	9,301,000	9,631,000
Long-term debt additions - net	—	4,233,000
Issue of common shares for cash	—	58,000
	41,368,000	45,095,000
APPLICATION OF WORKING CAPITAL		
Oil and gas properties	27,970,000	20,789,000
Plant and equipment	5,662,000	4,298,000
Investments	5,161,000	4,542,000
Long-term debt reductions - net	1,540,000	—
Dividends	3,247,000	2,195,000
Costs of proposed public financing	—	408,000
Other	1,274,000	552,000
	44,854,000	32,784,000
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,486,000)	$12,311,000

CONSOLIDATED SCHEDULE OF CHANGES IN WORKING CAPITAL

for the year ended December 31, 1974

	1974	1973
INCREASE (DECREASE) IN CURRENT ASSETS		
Cash and short-term deposits	$ (1,764,000)	$ 2,358,000
Accounts receivable	815,000	3,528,000
Inventories of merchandise and supplies	2,485,000	494,000
Prepaid expenses and deposits	(299,000)	310,000
	1,237,000	6,690,000
DECREASE (INCREASE) IN CURRENT LIABILITIES		
Accounts payable and accrued charges	(622,000)	(1,181,000)
Dividends payable	—	43,000
Income taxes	(2,576,000)	131,000
Current maturities on bank loans and long-term debt	(1,525,000)	612,000
Due to parent company	—	6,016,000
	(4,723,000)	5,621,000
INCREASE (DECREASE) IN WORKING CAPITAL	$ (3,486,000)	$12,311,000

CONSOLIDATED BALANCE SHEET
as at December 31, 1974

Assets

	1974	1974 Pro-Forma [Note 7]	1973 [Note 1]
CURRENT ASSETS			
Cash and short-term deposits	$ 4,536,000	$ 10,451,000	$ 6,300,000
Accounts receivable	13,227,000	19,587,000	12,412,000
Inventories of merchandise and supplies, at lower of cost or replacement cost	5,182,000	6,017,000	2,697,000
Prepaid expenses and deposits	579,000	815,000	878,000
	23,524,000	36,870,000	22,287,000
INVESTMENTS, at cost less amounts written-off (Note 2)	23,755,000	23,755,000	22,076,000
PROPERTY, PLANT AND EQUIPMENT (Notes 1 and 3)	225,775,000	324,540,000	193,396,000
Accumulated depletion and depreciation	84,925,000	84,925,000	75,540,000
	140,850,000	239,615,000	117,856,000
OTHER ASSETS	1,530,000	1,530,000	509,000
	$189,659,000	$301,770,000	$162,728,000

Signed on behalf of the Board:

E. A. GALVIN, Director

E. G. BATTLE, Director

Liabilities

	1974	1974 Pro-Forma [Note 7]	1973 [Note 1]
CURRENT LIABILITIES			
Accounts payable and accrued charges	$ 9,791,000	$ 22,789,000	$ 9,169,000
Income taxes	3,109,000	6,989,000	533,000
Current maturities on bank loans and long-term debt (Notes 4 and 5)	4,699,000	4,699,000	3,174,000
	17,599,000	34,477,000	12,876,000
BANK LOANS (Note 4)	30,060,000	123,060,000	20,759,000
LONG-TERM DEBT (Note 5)	14,105,000	16,338,000	15,645,000
MINORITY INTEREST IN SUBSIDIARIES	2,006,000	2,006,000	2,068,000
DEFERRED INCOME TAXES (Note 1)	40,889,000	40,889,000	33,865,000

Shareholders' Equity

CAPITAL STOCK (Note 6)			
Authorized			
50,000,000 common shares without par value			
Issued			
21,644,128 shares	29,283,000	29,283,000	29,283,000
CONTRIBUTED SURPLUS	173,000	173,000	173,000
RETAINED EARNINGS	55,544,000	55,544,000	48,059,000
	85,000,000	85,000,000	77,515,000
	$189,659,000	$301,770,000	$162,728,000

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

for the year ended December 31, 1974

	1974	1973
BALANCE AT BEGINNING OF YEAR, as previously reported	$79,927,000	$66,526,000
Adjustment resulting from retroactive adoption of tax allocation accounting (Note 1)	(31,868,000)	(26,187,000)
BALANCE AT BEGINNING OF YEAR, as restated	48,059,000	40,339,000
Net earnings	10,732,000	9,915,000
	58,791,000	50,254,000
Dividends — preferred shares	—	40,000
— common shares	3,247,000	2,155,000
	3,247,000	2,195,000
BALANCE AT END OF YEAR	$55,544,000	$48,059,000

CONSOLIDATED STATEMENT OF CONTRIBUTED SURPLUS

for the year ended December 31, 1974

	1974	1973
BALANCE AT BEGINNING OF YEAR	$173,000	$956,000
Costs of proposed public financing, subsequently cancelled	—	783,000
BALANCE AT END OF YEAR	$173,000	$173,000

NOTES TO 1974 CONSOLIDATED FINANCIAL STATEMENTS

Note 1 ACCOUNTING POLICIES

Principles of Consolidation

The consolidated financial statements include the accounts of Canadian Industrial Gas & Oil Ltd. (the Company) and all of its subsidiaries. All subsidiaries are wholly-owned at December 31, 1974 with the exception of Prairie Oil Royalties Company, Ltd. and Trans-Prairie Pipelines, Ltd., in which the Company has a 74% and 99% interest respectively. The excess of the cost of shares of purchased subsidiaries over the underlying net book value of their assets at dates of acquisition has been included in property, plant and equipment and is being systematically amortized on the same basis as the related assets.

Depletion

The companies follow the practice of capitalizing both productive and non-productive costs related to the exploration for and the development of oil and gas reserves, and of depleting such costs on a composite unit of production method based on total estimated recoverable reserves. Costs related to the exploration for and development of mining properties are capitalized and charged to earnings if the project or property is abandoned.

Depreciation

Depreciation of pipelines, plants and equipment is being provided at rates which will amortize original costs over the estimated useful lives of the respective assets.

Foreign Exchange

Amounts in foreign currency are converted to Canadian dollars on the following basis:

(i) Current assets and current liabilities, at the rate of exchange as at the balance sheet date.

(ii) Fixed assets, at the rate of exchange at the date of acquisition.

(iii) Long-term debt payable in foreign currencies, at the rate of exchange applicable at the date incurred.

(iv) Revenue and expenses, at the average rate of exchange for the period.

Income Taxes and Change in Accounting Policy

The companies follow the tax allocation method of accounting under which the income tax provision is based on the earnings reported in their accounts. Under this method the companies provide for deferred income taxes to the extent that income taxes otherwise payable are eliminated by claiming exploration and development costs and capital cost allowances in excess of the related depletion and depreciation provisions reflected in their accounts.

Prior to January 1, 1974 deferred income taxes had been recorded only in the accounts of certain of the Company's subsidiaries while the other companies had provided only for the taxes payable on their taxable income for the year.

This change in accounting had the effect of decreasing net earnings for the years ended December 31, 1974 and 1973 by $6,678,000 ($.31 per share) and $5,681,000 ($.26 per share), respectively. The 1973 accounts have been restated from those previously reported to give effect to this accounting change.

Total income tax expense for the year ended December 31, 1974 includes the effects of the income tax changes proposed in the November 18, 1974 Federal Budget and the announced "Alberta Petroleum Exploration Plan of December, 1974" and the effects of the changes in tax policies announced by the provinces of Saskatchewan and British Columbia. These proposed income tax changes have not yet been passed by the respective parliamentary bodies.

Note 2 INVESTMENTS

Investments at December 31, 1974 include 1,020,000 common shares (10% of the total outstanding common shares) and 1,860 preferred shares of Elf Oil Exploration and Production Canada Ltd. (Elf). On November 22, 1969, the Company entered into an agreement to subscribe for a share interest in Elf. The consideration for the Elf shares was the commitment by the Company to incur over a five-year period drilling and exploration expenses on petroleum and natural gas rights in Canada owned or controlled by Elf in an aggregate amount of $23.5 million approximating $4.7 million per annum. The agreement contains provision under certain circumstances for the incurring of additional expenditures. A total of $23.5 million has been incurred on drilling and exploration expenses and is included as the cost of Elf shares at December 31, 1974. The expenditures are allowable to the Company as deductions for income tax purposes.

During 1974 the Company reduced the carrying value of its investment in Elf by $3.5 million based on a valuation determined by Company engineers.

Also included under this caption at December 31, 1974 are 333,531 shares of British Columbia Oil Lands Ltd. (approximately 35% of that company's outstanding capital stock) at a cost of $2 million with an approximate market value of $.5 million on February 7, 1975. Because of the number of shares of British Columbia Oil Lands Ltd. involved, the market value is not necessarily indicative of the amount that would be realized on sale.

Note 3 PROPERTY, PLANT AND EQUIPMENT

	1974			1973
	Cost	Accumulated Depletion and Depreciation	Net	Net
Oil and gas properties	$145,208,000	$44,185,000	$101,023,000	$ 79,285,000
Oil and gas production equipment	23,141,000	12,267,000	10,874,000	9,502,000
Pipelines and processing plants	28,634,000	20,901,000	7,733,000	8,283,000
Propane marketing equipment	19,491,000	6,084,000	13,407,000	13,120,000
Gas utility facilities	9,301,000	1,488,000	7,813,000	7,666,000
	$225,775,000	$84,925,000	$140,850,000	$117,856,000

Note 4 BANK LOANS

	1974	1973
Canadian Industrial Gas & Oil Ltd. and wholly-owned subsidiaries	$31,838,000	$21,530,000
Trans-Prairie Pipelines, Ltd. and subsidiary, secured by a general assignment of accounts receivable and by Series "D" First Mortgage Sinking Fund Bonds (See Note 5)	1,425,000	1,527,000
	33,263,000	23,057,000
Current maturities included in current liabilities	3,203,000	2,298,000
	$30,060,000	$20,759,000

Loans of Canadian Industrial Gas & Oil Ltd. and wholly-owned subsidiaries, from Canadian banks in the amount of $31,745,000 at December 31, 1974, are evidenced by demand notes and are secured by assignment under Section 82 of the Bank Act (Canada) covering certain producing oil and gas properties together with a general assignment of accounts receivable. While the loans are payable on demand the companies have informal understandings with the banks that these loans will be paid in monthly instalments of $690,000 beginning in September, 1975, plus interest.

Bank loans maturities for each of the four years subsequent to 1975 are as follows:
1976 — $8.5 million, 1977 — $8.5 million, 1978 — $7.3 million, 1979 — $4.4 million.

Note 5 LONG-TERM DEBT

	1974	1973
Canadian Industrial Gas & Oil Ltd. and wholly-owned subsidiaries		
5⅞% First Mortgage Sinking Fund Bonds, due February 1, 1980 ($6,775,000 (U.S.)) subject to semi-annual sinking fund payments of $616,000 (U.S.)	$ 7,295,000	$ 7,995,000
Convertible notes payable	2,433,000	2,510,000
Advance for drilling costs — interest-free, repayable October 1, 1982 (net of parent company share $454,000)	908,000	908,000
Other	771,000	697,000
Trans-Prairie Pipelines, Ltd. and subsidiary		
First Mortgage Sinking Fund Bonds:		
6% Series "A" due June 1, 1982, subject to annual sinking fund payments of $57,000	1,443,000	1,514,000
9% Series "B" due June 15, 1993, subject to annual sinking fund payments of $60,000	2,440,000	2,500,000
6½% Series "C" due February 1, 1976	250,000	258,000
Sinking Fund Debentures:		
6¼% Series "A" due February 1, 1976	61,000	139,000
	15,601,000	16,521,000
Current maturities included in current liabilities	1,496,000	876,000
	$14,105,000	$15,645,000

The convertible notes are payable to Company officers and key employees, bear interest at a bank prime lending rate plus ½ of 1% and are convertible into common shares from time to time to September 2, 1979 at prices of $8.25 and $8.63 per share. See Note 6.

Trans-Prairie Pipelines, Ltd. has authorized the creation and issue of $3,500,000 7½% Series "D" First Mortgage Sinking Fund Bonds due March 1, 1983, all of which are held by the bank as collateral for bank loans.

Long-term maturities and sinking fund requirements for each of the four years subsequent to 1975 are as follows:

1976 — $2.2 million, 1977 — $1.5 million, 1978 — $1.5 million, 1979 — $3.9 million.

Note 6 CAPITAL STOCK

Unissued common shares of the Company are reserved at December 31, 1974 as follows:

(a) 282,306 for convertible notes payable. See Note 5.

(b) 161,800 for market growth stock options held by Company officers and key employees, exercisable from time to time to May, 1978 at prices ranging from $8.50 to $11.00 per share.

Note 7 SUBSEQUENT EVENTS

(a) By an agreement dated as of January 1, 1975, the Company agreed to purchase, subject to certain conditions, all of the outstanding shares of Great Plains Development Company of Canada, Ltd. for a purchase price of approximately $95,600,000. Arrangements have been made to finance the purchase principally through long-term bank borrowings ($93,000,000). In the event the reorganization described in (c) below is not effected, the Company's parent, Northern and Central Gas Corporation Limited, would have the right to acquire 22% of the shares of Great Plains for 22% of the Company's acquisition cost.

The accompanying pro-forma consolidated balance sheet at December 31, 1974 gives effect to the acquisition by the Company of 100% of the outstanding shares of Great Plains as if it had been completed at that date. The excess (approximately $22,000,000) of the cost of the shares of Great Plains over their underlying book value at the date of acquisition has been included in property, plant and equipment on the pro-forma consolidated balance sheet and will be amortized on the same basis as the related assets.

(b) The following summarizes the consolidated statement of earnings of Great Plains and its subsidiaries for the years ended December 31:

	1974	1973
Revenue	$23,813,000	$18,735,000
Expenses	12,498,000	11,129,000
Income taxes	4,933,000	2,521,000
Earnings before extraordinary items	6,382,000	5,085,000
Extraordinary items	1,908,000	—
Net earnings	4,474,000	5,085,000

The combined accounts of the Company and Great Plains for 1975 and future years, subject to the consummation of the purchase, will include additional annual expenses for depletion on the excess cost arising on the acquisition of Great Plains and depreciation on the Great Plains plant and equipment calculated on its fair value at the date of acquisition on the same basis as the Company (approximately $2,000,000 and $680,000 per annum respectively, based on 1974 operations) and interest on bank loans of $93,000,000 (at 1% over the bank prime rate on $43,000,000 and ¾ of 1% above bankers' acceptance rates on $50,000,000), less applicable income tax reductions.

(c) The Company's shareholders have been given notice of a meeting to be held on February 26, 1975 to consider and vote upon a proposed reorganization of the Company forming part of a proposed reorganization of Northern and Central Gas Corporation Limited and certain of its subsidiaries (the Company is 61%-owned by Northern and Central). In general terms, the reorganization would effect a merger of the Company and Northern and Central shareholder groups.

Note 8 REMUNERATION OF DIRECTORS AND SENIOR OFFICERS

Remuneration totalling $596,000 was paid by the Company and its subsidiaries to the directors and senior officers of the Company in 1974.

AUDITORS' REPORT

To the Shareholders
Canadian Industrial Gas & Oil Ltd.

We have examined the consolidated balance sheet of Canadian Industrial Gas & Oil Ltd. and subsidiary companies as at December 31, 1974 and the consolidated statements of earnings, retained earnings, contributed surplus and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at December 31, 1974 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied, after giving retroactive effect to the change in accounting for income taxes as explained in Note 1 to the consolidated financial statements, on a basis consistent with that of the preceding year.

We have also examined the compilation of the pro-forma consolidated balance sheet of Canadian Industrial Gas & Oil Ltd. and subsidiary companies as at December 31, 1974 giving effect to the proposed acquisition of Great Plains Development Company of Canada, Ltd. In our opinion this pro-forma consolidated balance sheet has been properly compiled based on the transactions set forth in Note 7(a) to the consolidated financial statements.

Calgary, Alberta.
February 7, 1975.

RIDDELL, STEAD & CO.
Chartered Accountants

LITHOGRAPHED IN CANADA

CANADIAN INDUSTRIAL GAS & OIL LTD.
ANNUAL REPORT 1974

FOOTHILL PRINTERS LIMITED · CALGARY

CANADIAN INDUSTRIAL GAS & OIL LTD.

Interim Report

June 30, 1974

To The Shareholders

Drilling

During the six months ended June 30, 1974, the Company participated in the drilling of 76 gross wells (20.59 net) of which 9 (3.52) were oil wells, 16 (3.46) were gas wells and 51 (13.61) were abandoned.

Tuktoyaktuk Peninsula

The final well of a six-well program on lands farmed in from Imperial Oil Limited in the Tuktoyaktuk Peninsula, Northwest Territories, was drilled to a total depth of 7,652 feet and subsequently abandoned. The Company has now earned a 20% interest in approximately 155,000 acres from Imperial Oil.

The fifth well of the program, Imp. CIGOL Russell H-23, encountered encouraging gas shows which indicated the possibility of a large gas accumulation in the immediate area. As a result, the Company has now committed to drill a 5,000-foot test to earn 25% interest in a 22,000-acre block adjacent to the Russell lands. In addition to this commitment, it will have the option to earn a 30% interest in two additional 22,000-acre blocks by the drilling of a well on each. It is anticipated that the first well will be drilled in early 1975.

Arctic Islands

On the Sabine Peninsula of Melville Island, Panarctic Oils Ltd. recently completed Panarctic POR Homestead Drake E-78 on the north side of the Drake Point anticline. A very good development of gas-bearing Borden Island sand was encountered in the well which, on drillstem test, displayed excellent producing characteristics, comparable to the best so far encountered in the field. The E-78 well is located three miles northeast of the Drake F-16 well and the presence of gas at this location

expands considerably the established field limits as well as the magnitude of proved reserves. Through a subsidiary, the Company has a .4725% interest in this well.

Also on the Sabine Peninsula, Panarctic Homestead POR North Sabine H-49 was recently abandoned at a total depth of 12,500 feet, after failing to find hydrocarbons. The Company has a 3.15% interest in the well and in the lands on which the well is located.

East Coast Offshore

The Company has participated to the extent of 25% interest in the costs of drilling four exploratory test wells on a farm-in from Shell Canada Limited, off the Scotian Shelf of Eastern Canada.

The drilling of these wells has earned for CIGOL, a 12.5% interest in 4,390,850 acres. The wells were drilled and abandoned at depths of 7,643 ft., 10,071 ft., 8,146 ft. and 3,547 ft. respectively, after failing to find hydrocarbon encouragement. As the cost of the original four wells was considerably less then anticipated it was possible to commit to a fifth well which will be drilled sometime in late 1974 or early 1975. This well will earn CIGOL 12.5% interest in an additional 466,666 acres and will be the final well of the program.

Turkey

The Company participated to 20% in the drilling of a well in Turkey which flowed oil at the rate of approximately 700 barrels per day. Further evaluation of the well is proceeding.

North Sea

The North Sea well on block 210/19, in which the Company has a 15% interest, was spudded on July 1, 1974, and is currently drilling.

U.S.A. Operations

The program of 42 wells drilled on 30 prospects in seven States, in which the Company has participated, has resulted in two gas discoveries in Texas and one in Oklahoma, one oil well in Texas and one in Oklahoma, and one gas and oil discovery in Oklahoma.

East Cameron 55-1, the first test on acreage acquired early this year in the Louisiana offshore, was spudded early in July and is currently drilling below 10,000 feet.

Tunisia

A farm-out has been completed of the Gulf of Gabes permit whereby the farmee will earn a 50% interest in the acreage by expending $3,000,000 on exploration including the drilling of at least one well. When the interest has been earned, the Company's participation will be reduced from 52% to 26%.

South Viet Nam [see map on pages 4 & 5]

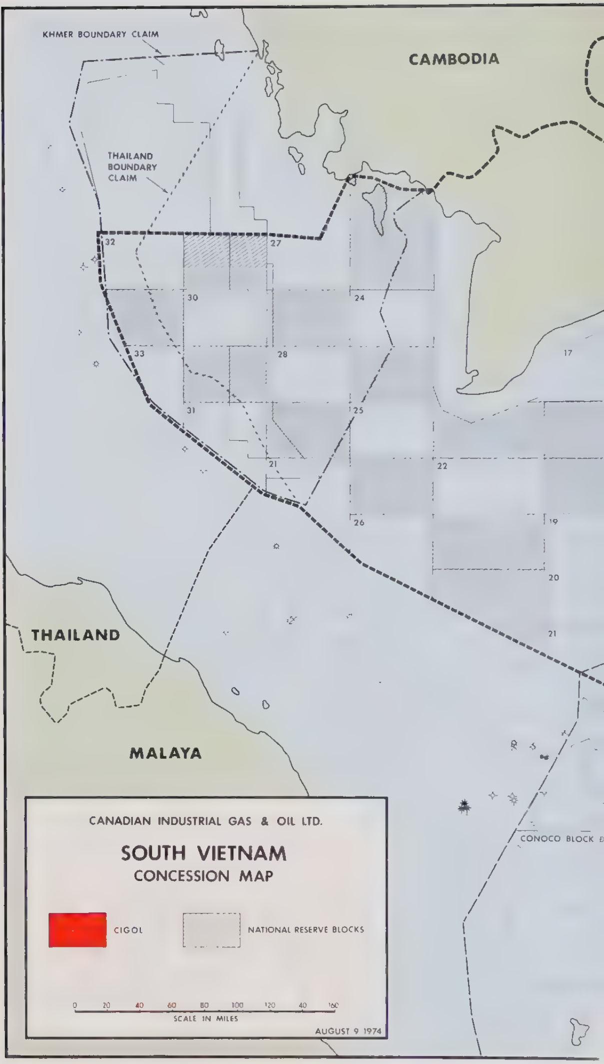
In June, an agreement was concluded with the Government of South Viet Nam whereby the Company and three partners acquired an offshore exploration permit of approximately 1,100,000 acres, for a bonus of $8,000,000. The Company's participation is 25%. It is anticipated that seismic surveys will commence in the latter part of August.

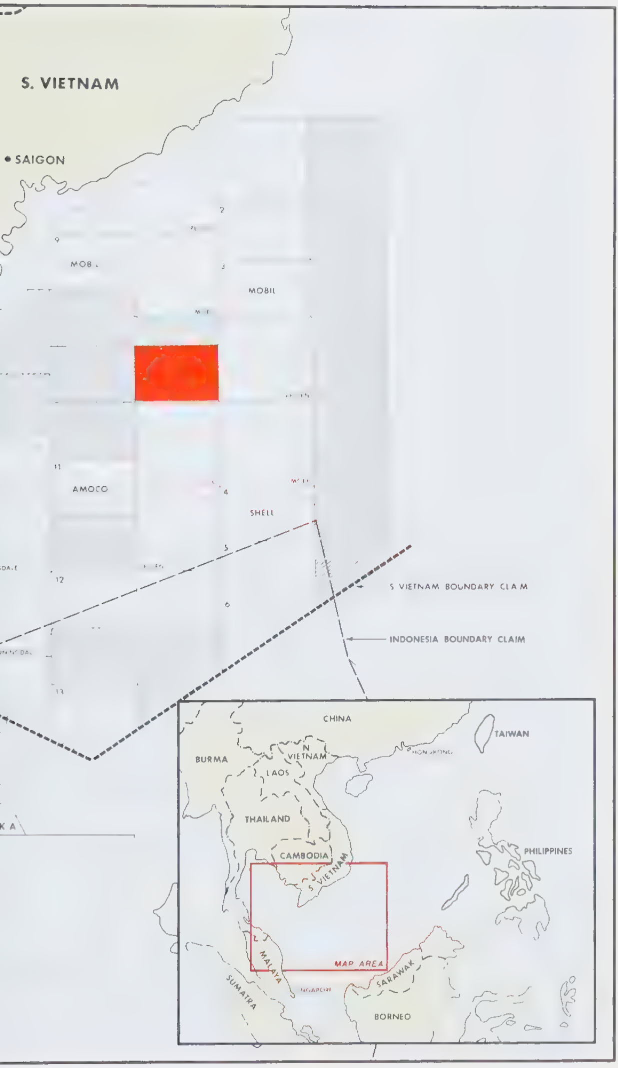
Financial

Net earnings for the six months ended June 30, 1974 were $6,782,000 (31¢ per share), an increase of 59% from restated last year $4,265,000 (20¢ per share). The Company is receiving higher prices for most of its oil and gas production, which is the primary reason for the improvement in net earnings.

Effective January 1, 1974 CIGOL and subsidiaries adopted deferred income tax method of accounting, which resulted in a reduction of

[Continued on page 8]


KHMER BOUNDARY CLAIM
CAMBODIA
THAILAND BOUNDARY CLAIM
32
27
30
24
33
28
17
31
25
21
22
26
19
20
21
THAILAND
MALAYA
CONOCO BLOCK
CANADIAN INDUSTRIAL GAS & OIL LTD.
SOUTH VIETNAM
CONCESSION MAP
CIGOL
NATIONAL RESERVE BLOCKS
SCALE IN MILES
AUGUST 9 1974


S. VIETNAM
SAIGON
2
9
3
MOBIL
11
AMOCO
4
SHELL
5
12
6
13
S VIETNAM BOUNDARY CLAIM
INDONESIA BOUNDARY CLAIM
CHINA
TAIWAN
BURMA
N VIETNAM
LAOS
THAILAND
CAMBODIA
S VIETNAM
PHILIPPINES
MALAYA
MAP AREA
SARAWAK
SUMATRA
BORNEO

CONSOLIDATED STATEMENT OF EARNINGS
(unaudited)

SALES, SERVICE AND OTHER OPERATING REVENUE . .

COSTS AND EXPENSES

Gas and other merchandise purchased . . . .
Selling, operating and administrative expenses . . . . . .
Interest . . . .
Depletion . . . .
Depreciation . . . .
Minority interest . . . .

EARNINGS BEFORE INCOME TAX . . . .

Income taxes - current and deferred . . . .

NET EARNINGS . . . .

PER COMMON SHARE

Cash earnings . . . .
Net earnings . . . .

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION
(unaudited)

SOURCES OF WORKING CAPITAL

Operations

Net earnings . . . .
Charges not requiring working capital . . . .

Working capital generated from operations . . . . .

Sale of fixed assets . . . .
Bank loan additions . . . .

APPLICATION OF WORKING CAPITAL

Oil and gas properties . . . .
Plant and equipment . . . .
Investments . . . .
Dividends . . . .
Long-term debt reductions (additions) . . . .
Other . . . .

INCREASE IN WORKING CAPITAL . . . .

For the Six Months Ended June 30

	1974	1973 (Restated)
....	$36,861,000	$26,246,000
....	10,655,000	7,004,000
....	7,740,000	6,693,000
....	1,775,000	1,104,000
....	2,885,000	2,540,000
....	1,973,000	1,873,000
....	99,000	90,000
	25,127,000	19,304,000
....	11,734,000	6,942,000
....	4,952,000	2,677,000
....	$ 6,782,000	$ 4,265,000
....	75¢	52¢
....	31¢	20¢

For the Six Months Ended June 30

	1974	1973 (Restated)
....	$ 6,782,000	$ 4,265,000
....	9,765,000	7,095,000
....	16,547,000	11,360,000
....	318,000	224,000
....	7,711,000	836,000
	24,576,000	12,420,000
....	19,003,000	4,815,000
....	1,351,000	1,268,000
....	2,764,000	1,218,000
....	—	571,000
....	517,000	(1,757,000)
....	18,000	332,000
	23,653,000	6,447,000
....	$ 923,000	$ 5,973,000

Signed on behalf of the Board.

E. A. GALVIN, Director.
R. B. LOVE, Director.

the first half year net earnings of $4,065,000 (19¢ per share). For comparison purposes, 1973 figures have been restated to reflect the additional provision for tax, resulting in a reduction of $2,531,000 (11¢ per share) in the net earnings reported.

Cash flow generated from operations was $16,547,000 (75¢ per share) compared to $11,360,000 (52¢ per share) in the previous year. Capital expenditures in the six months were $23,118,000 compared to $7,301,000 for the same period in 1973, details of which are as follows:

	1974	**1973**
Oil and Gas Exploration		
Canadian	$ 6,515,000	$2,832,000
Arctic and N.W.T. ...	6,245,000	3,100,000
Foreign	5,056,000	101,000
Acquisition of Producing Property	3,950,000	—
Plant and Equipment	1,352,000	1,268,000
	$23,118,000	$7,301,000

The proposed federal budget introduced in Parliament prior to the recent election includes significant changes in income tax legislation for the oil and gas industry. This legislation, if implemented, combined with the recent provincial legislation pertaining to royalties would have a serious and detrimental impact on the oil and gas industry. After-tax proceeds to the producer would be less than the cost of replacing production and, in some cases, less than the historical unit cost of finding and developing existing reserves. It is hoped that the recently elected Federal majority Government will work with the various provincial governments and arrive at some compromise whereby there is again incentive and encouragement to conduct oil and gas exploration in Canada.

Saskatchewan Government Bill No. 42

The hearing of the Company's action in the Saskatchewan courts to determine the validity of that Province's legislation, imposing a mineral income tax on freehold producing tracts and a royalty surcharge on crown producing leases, commenced on July 29. The result of the action is not yet known.

On Behalf of the Board.

E. A. Galvin,
Chairman and President.

Calgary, Alberta.
August 23, 1974.

AR29

LITHOGRAPHED IN CANADA